

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its December 2006 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.3% in 2006, 2.2% in 2007, 3.2% in 2008, 3.4% in 2009, and 3.3% in 2010;
- U.S. nonfarm employment grows 1.4% in 2006, 0.9% in 2007, 1.3% in 2008, 1.5% in 2009, and 1.4% in 2010;
- the annual U.S. civilian unemployment rate is no higher than 5.0% through 2010;
- consumer inflation is 3.2% in 2006, 1.7% in 2007, 2.0% in 2008, and 1.8% in both 2009 and 2010;
- the current account deficit is \$873 billion in 2006, \$816 billion in 2007, \$788 billion in 2008, \$814 billion in 2009, and \$831 billion in 2010; and
- the federal unified budget deficit is \$248 billion in 2006, \$280 billion in 2007, \$287 billion in 2008, \$267 billion in 2009, and \$255 billion in 2010.

OPTIMISTIC SCENARIO

Global Insight has assigned its *Optimistic Scenario* a 20% probability of occurrence. Seven assumptions distinguish this scenario from the baseline. First, total factor productivity is stronger. Underlying this assumption is the belief the information-driven technology boom will continue. Second, foreign economic growth is stronger, which causes U.S. exports to grow faster in most years in this scenario. Third, the U.S. dollar is stronger in this scenario. Fourth, business investment is stronger. This is not hard to imagine because the current level of business spending is below the historical average at a time when businesses are running out of industrial capacity. Fifth, the federal budget deficit is lower thanks to higher revenues and lower federal transfer payments. Also contributing to the smaller deficit is lower interest payments. Sixth, better job growth, lower mortgage interest rates, and higher consumer confidence lead to stronger housing starts. Seventh, the *Optimistic Scenario* assumes energy prices are lower than in the baseline.

These assumptions produce a rosier forecast than the baseline. Real GDP is stronger in 2007, 2.7% versus 2.2%. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation allows the Federal Reserve to keep its federal funds rate below the *Baseline Scenario's* rate. Job growth is also stronger, which keeps the unemployment rate below its baseline counterpart over the forecast period.

Although the U.S. economic outlook clearly improves under the assumptions of the *Optimistic Scenario*, it creates mixed results for the Idaho economy. Namely, Idaho's economy performs stronger in the early years of the forecast compared to the baseline, but this advantage disappears over time as stronger productivity growth suppresses both employment and wage gains. The effects are apparent in both the Idaho employment and income data. Idaho nonfarm employment goes from having about 2,100 more jobs in 2007 compared to its baseline counterpart to having about 1,400 fewer jobs by 2010. Idaho real personal income displays a similar pattern. It is \$112 million higher in 2007, but is nearly \$300 million lower than in the *Baseline Scenario* by 2010.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

JANUARY 2007

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
GDP (BILLIONS)												
Current \$	13,789	14,497	15,285	16,103	13,819	14,560	15,375	16,193	13,657	14,286	15,213	16,151
% Ch	4.2%	5.1%	5.4%	5.4%	4.4%	5.4%	5.6%	5.3%	3.2%	4.6%	6.5%	6.2%
2000 Chain-Weighted	11,659	12,028	12,441	12,854	11,721	12,191	12,694	13,174	11,511	11,710	12,077	12,403
% Ch	2.2%	3.2%	3.4%	3.3%	2.7%	4.0%	4.1%	3.8%	0.9%	1.7%	3.1%	2.7%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	47,361	50,216	53,509	57,370	47,155	49,510	52,372	55,720	48,380	51,785	55,755	60,934
% Ch	7.3%	6.0%	6.6%	7.2%	6.2%	5.0%	5.8%	6.4%	8.8%	7.0%	7.7%	9.3%
U.S. (Billions)	11,432	12,040	12,775	13,550	11,442	12,057	12,807	13,569	11,446	12,003	12,805	13,707
% Ch	4.9%	5.3%	6.1%	6.1%	5.0%	5.4%	6.2%	5.9%	5.0%	4.9%	6.7%	7.0%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,599	42,215	44,135	46,444	40,711	42,175	43,990	46,145	41,032	42,507	44,342	46,973
% Ch	5.4%	4.0%	4.5%	5.2%	5.0%	3.6%	4.3%	4.9%	5.8%	3.6%	4.3%	5.9%
U.S. (Billions)	9,800	10,122	10,537	10,969	9,878	10,270	10,757	11,237	9,708	9,853	10,184	10,568
% Ch	3.1%	3.3%	4.1%	4.1%	3.9%	4.0%	4.7%	4.5%	2.1%	1.5%	3.4%	3.8%
TOTAL NONFARM EMPLOYMENT												
Idaho	654,575	668,922	683,842	704,322	656,663	670,715	684,345	702,906	656,993	667,688	680,578	700,975
% Ch	2.6%	2.2%	2.2%	3.0%	2.7%	2.1%	2.0%	2.7%	2.7%	1.6%	1.9%	3.0%
U.S. (Thousands)	136,614	138,359	140,471	142,481	137,009	139,369	142,121	144,498	135,844	136,226	138,024	140,124
% Ch	0.9%	1.3%	1.5%	1.4%	1.2%	1.7%	2.0%	1.7%	0.4%	0.3%	1.3%	1.5%
GOODS-PRODUCING SECTOR												
Idaho	121,399	120,018	119,385	120,347	121,655	121,102	119,972	120,072	120,251	116,461	116,911	117,030
% Ch	-1.0%	-1.1%	-0.5%	0.8%	-0.8%	-0.5%	-0.9%	0.1%	-1.9%	-3.2%	0.4%	0.1%
U.S. (Thousands)	22,046	21,932	22,011	22,190	22,045	22,112	22,402	22,728	21,923	21,185	21,050	21,111
% Ch	-1.5%	-0.5%	0.4%	0.8%	-1.5%	0.3%	1.3%	1.5%	-2.1%	-3.4%	-0.6%	0.3%
NONGOODS-PRODUCING SECTOR												
Idaho	533,176	548,904	564,457	583,976	535,008	549,613	564,373	582,834	536,742	551,227	563,667	583,944
% Ch	3.4%	2.9%	2.8%	3.5%	3.5%	2.7%	2.7%	3.3%	3.9%	2.7%	2.3%	3.6%
U.S. (Thousands)	114,568	116,427	118,460	120,290	114,964	117,257	119,719	121,770	113,921	115,041	116,975	119,013
% Ch	1.4%	1.6%	1.7%	1.5%	1.8%	2.0%	2.1%	1.7%	0.9%	1.0%	1.7%	1.7%
SELECTED INTEREST RATES												
Federal Funds	4.9%	4.5%	4.7%	4.8%	4.7%	4.3%	4.5%	4.5%	7.0%	7.1%	6.1%	5.7%
Bank Prime	7.9%	7.5%	7.7%	7.8%	7.7%	7.3%	7.5%	7.5%	10.0%	10.1%	9.1%	8.7%
Existing Home Mortgage	6.4%	6.5%	7.0%	7.1%	6.2%	6.2%	6.7%	6.7%	7.4%	8.1%	7.9%	7.9%
INFLATION												
GDP Price Deflator	1.9%	1.9%	1.9%	2.0%	1.6%	1.3%	1.4%	1.5%	2.3%	2.8%	3.3%	3.4%
Personal Cons Deflator	1.8%	2.0%	1.9%	1.9%	1.1%	1.3%	1.4%	1.4%	2.9%	3.3%	3.2%	3.2%
Consumer Price Index	1.7%	2.0%	1.8%	1.8%	0.9%	1.4%	1.4%	1.3%	2.7%	3.0%	2.9%	3.0%

Forecast Begins the **THIRD** Quarter of 2006

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 20% probability of occurrence. In this scenario, a key lever in the forecast is core inflation is higher than in the baseline case. One of the reasons for the price acceleration is this alternative assumes there is less spare capacity in the world. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. This alternative forecast also assumes the dollar weakens as foreign investors flee the greenback over concerns of the huge U.S. trade deficit. The Federal Reserve raises interest rates more steeply in this alternative compared to the baseline. Despite this more aggressive stance, both the bond and stock markets slip on signs the Federal Reserve may have responded too slowly to rising inflation. Both of these factors point to higher interest rates than in the baseline. The rising interest rates deepen the housing downturn. The Federal Reserve may concede the round to inflation, but not the match, and it continues to raise rates in order to stop inflation.

Consumer confidence suffers from the higher interest rates and persistently high energy prices. Consumer confidence is dented further under the combined weight of slow job growth and increasing debt loads. As a result of these combined concerns, consumers reel in their discretionary spending, which causes the economy to suffer. The economy does not sink into a recession in this alternative, but merely fails to come as close to its potential as in the baseline.

Idaho nonfarm employment increases slightly slower in the *Pessimistic Scenario*, averaging 2.3% annual growth versus the *Baseline Scenario's* 2.5% pace. As a result of this dampened growth, Idaho nonfarm employment in 2010 is about 3,500 lower than its baseline counterpart. The state's goods-producing sector accounts for virtually the entire gap. However, Idaho real personal income fares better in the *Optimistic Scenario* thanks to strong showings in 2007 and 2010. As a result, Idaho real personal income is \$529 million higher than in the baseline case. This gap partially results from stronger wage growth that stems from the weaker productivity growth. But wages do not explain the entire difference. The dividends, interest, and rent income portion of personal income is also higher thanks to elevated interest rates.